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CITY OF MURRIETA, CALIFORNIA
SINGLE AUDIT REPORT
JUNE 30, 2008

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CITY OF MURRIETA

JUNE 30, 2008

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of the City Council
City of Murrieta, California

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Murrieta, California, as of and for the year ended June 30, 2008, which collectively comprise the City of Murrieta, California's basic financial statements and have issued our report thereon dated February 10, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Murrieta, California's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Murrieta, California's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Murrieta, California's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Murrieta, California's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Murrieta, California's financial statements that is more than inconsequential will not be prevented or detected by the City of Murrieta, California's internal control. We consider the following deficiencies described in the accompanying schedule of findings and questioned costs as items 08-1, 08-2, 08-3, 08-4, and 08-5 to be significant deficiencies in internal control.



To the Honorable Mayor and Members of the City Council
City of Murrieta, California
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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Murrieta, California's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described in the accompanying schedule of findings and questioned costs as items 08-2 and 08-3 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Murrieta, California's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States.

This report is intended solely for the information and use of management, the audit committee, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lane, Loll & Loughard, LLP

February 10, 2009

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and the Members of the City Council
City of Murrieta, California

Compliance

We have audited the compliance of the City of Murrieta, California, (the "City") with the types of compliance requirements described in the United States Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our audit procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.



To the Honorable Mayor and Members of the City Council
City of Murrieta, California
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A *control deficiency* in a City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiency in the internal control over compliance that we consider material weakness as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basis financial statements of the City as of and for the year ended June 30, 2008, and have issued our report thereon dated February 10, 2009. Our audit was performed for the purpose of forming an opinion of the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the City Council, management, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Lance, Soll & Loughard, LLP

February 23, 2009

CITY OF MURRIETA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>Institute of Museum and Library Services</u>			
Direct Program:			
National Leadership Grant	45.312	CL-00-05-0023-05	\$ 15,551
Total Institute of Museum and Library Services			15,551
<u>U.S. Department of Justice</u>			
Direct Program:			
Federal Asset Seizure and Forfeiture Program	16.000	N/A	18,465
Total U.S. Department of Justice			18,465
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the County of Riverside:			
Community Development Block Grant	14.218	MR076	5,631
		MR077	49,391
		MR078	9,356
Total U.S. Department of Housing and Urban Development			64,378
<u>U.S. Department of Transportation</u>			
Passed through the State of California:			
Highway Planning and Construction*	20.205	BRLKS-5464 (020)	95,151
		BRLS-5464 (023)	111,380
			206,531
Passed through the State of California, Office of Traffic Safety:			
State and Community Highway Safety*	20.600	PT0753	83,968
Total U.S. Department of Transportation			290,499
<u>U.S. Department of Homeland Security</u>			
Passed through the County of Riverside:			
Homeland Security Grant Program	97.067	EMPG2007	47,723
Passed through the State of California:			
Public Assistance Grants	97.036	FEMA-1731-DR-CA	132,712
Total U.S. Department of Homeland Security			180,435
Total Federal Expenditures			\$ 569,328

* Major Program

Note a: Refer to Note 1 to the schedule of expenditures of federal awards for a description of significant accounting policies used in preparing this schedule.

Note b: There was no federal awards expended in the form of noncash assistance and insurance in effect during the year.

Note c: There were no payments made to subrecipients during the fiscal year.

CITY OF MURRIETA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

a. Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City of Murrieta, California, that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

b. Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

CITY OF MURRIETA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? ☒ yes ☐ no
- Significant deficiencies identified that are considered to be material weaknesses? ☒ yes ☐ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? ☐ yes ☒ no
- Significant deficiencies identified that are considered to be material weaknesses? ☐ yes ☒ none reported

Type of auditors' report issued on compliance for major programs: Unqualified Opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ yes ☒ no

Identification of major programs:

CFDA Number(s)

20.205
20.600

Name of Federal Program or Cluster

Highway Planning and Construction
State and Community Highway Safety

Dollar threshold used to distinguish between type A and type B program \$300,000

Auditee qualified as low-risk auditee? ☐ yes ☒ no

CITY OF MURRIETA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Number: 08-1

Audit Adjustments:

During our audit we proposed various adjustments which we consider to be significant to the financial reporting process. Significant adjustments were required to properly state grant receivables, payables, and long-term liabilities at June 30, 2008.

Finding Number: 08-2

Cash and Investments:

During our test of the bank reconciliations, we noted multiple reconciling items that had to be investigated and corrected in order to reconcile cash and investments. We also found that cash was not properly reconciled as far back as July 2007. We suggest that all reconciling items be investigated promptly, so that errors and adjustments can be quickly identified and corrected with adequate explanation. Reconciliations should be performed on a timely basis and reconciling items adjusted so that the internal balances of cash and investments are properly reflected on the records of the City.

Finding Number: 08-3

Controls over Reconciliation of Grant Records

During our audit, we proposed various adjustments related to the City's grants. For the most part, these adjustments were the result of communication problems between the departments administering the grants and the Finance Department. We recommend that the City implement grants management procedures to ensure that all grants and related information are communicated in a timely manner to the finance department for proper financial reporting at year-end.

Finding Number: 08-4

Controls over Period End Financial Reporting

During our audit, we proposed various audit adjustments related to closing the fiscal year. We recommend the City develop and implement year-end closing procedures which include controls for receivable accruals, payable accruals, grant reconciliations and other related transactions that occur during the closing process. This will help ensure that all transactions are captured in the appropriate period.

Finding Number: 08-5

Restatements of Prior Period Financial Statements

The City's financial statements beginning governmental fund balance and government-wide net assets have been restated to correct receivable records, recognize revenues from prior years, reclassify prior expenditures to the appropriate funds and adjustments related to advances from the General Fund to non-major governmental funds.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

CITY OF MURRIETA

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

SECTION I - FINANCIAL STATEMENT FINDINGS

Finding Number: 07-1

Documentation of the Components of Internal Control

The City does not have documentation as to the internal control processes over the various functions of finance i.e. disbursements, payroll, revenue, account reconciliations, journal entries, grants, etc. We recommend that the City document its internal control policies and procedures over the various functions.

Status

The City is still in process of correcting this finding.

Finding Number: 07-2

Audit Adjustments

During our audit we proposed various adjustments which we consider to be significant to the financial reporting process. Significant adjustments were required to properly state receivables, land held for resale, payables, other liabilities, and grants at June 30, 2007.

Status

There were multiple audit adjustments at June 30, 2008.

Finding Number: 07-3

Controls over Reconciliation of Grant Records

During our audit, we proposed various adjustments related to the City's grants. We recommend that the City implement controls to oversee the reconciliation of grants to ensure proper reporting in the financial records. This includes timely reporting and notification of grant awards to the finance department and qualified finance personnel responsible to appropriately record and review reporting in the financial statements.

Status

The City is still in process of correcting this finding.

Finding Number: 07-4

Accounting Software and Controls for Receivables

During our audit, we proposed adjustments to various receivables due to the receivables software interface with the general ledger records. From our conversations with management, subsequent to our audit, the City has corrected this issue. In addition to the interface issues encountered with the software, we proposed corrections to receivables and revenues which were setup with the software but were either cancelled or were not received within the City's revenue recognition policy. We recommend that the City implement controls to oversee the receivables function for the various billings through the receivables software to ensure proper recording in the financial records.

Status

The City has corrected the finding in relation to the Accounting Software. However, there were multiple adjusting entries made during the year-end audit to properly accrue year-end receivables.

CITY OF MURRIETA

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Finding Number: 07-5

Controls over Period End Financial Reporting

During our audit, we proposed adjustments to accrue various payables and receivables at year-end. We recommend controls be implemented to ensure all year-end accruals are properly reflected in the financial records. This includes interdepartmental controls to ensure that at the end of the period all invoices and receipts are captured in the appropriate period. We also noted that not all asset and liability accounts were being properly reconciled and audit adjustments were necessary to properly state these accounts. We recommend that controls be strengthened over the account reconciliation process.

Status

The City is still in process of correcting this finding.

Finding Number: 07-6

Restatements of Prior Period Financial Statements

The City's financial statements beginning governmental fund balance and government-wide net assets have been restated to correct receivable records, recognize revenues from prior years, reclassify prior expenditures to appropriate fund, and adjustments related to compensated absences balances.

Status

The City is still in process of correcting this finding.

Finding Number: 07-7

Capital Assets

There is not an adequate detailed listing of the capital assets to support amounts reported in the City's financial statements. We recommend the City take the necessary steps to obtain a proper detailed listing of capital assets to support balances in the financial statements.

Status

The City has corrected this finding.

Finding Number: 07-8

Depreciation

As a result of the inadequate capital asset records the City has used estimates for depreciation. The estimates involve using prior period annual depreciation from previously issued financial statements and factoring in the change of assets and depreciation for the current year. In determining that the depreciation estimates were reasonable in relation to the financial statements taken as a whole, we relied on our audit from fiscal year 2003-2004, when the City had a complete listing of assets, in conjunction with our subsequent period audits on the change in capital asset activity. Since fiscal year 2003-2004, the City has used estimates for depreciation using the methodology described above due to a loss of records. Based on the nature of the estimates and the length of time using this methodology we feel it is necessary that the City complete the steps to obtain proper detailed records in order to accurately calculate depreciation.

Status

The City has corrected this finding.

CITY OF MURRIETA

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Finding Number: 07-9

Developer Contributions

During our audit, we encountered difficulties obtaining valuations of contributions from developers which are reported as capital assets in the City financial statements. We recommend that the City implement procedures to value these contributions in order to appropriately be reflected in the City financial records.

Status

The City has corrected this finding.

Finding Number: 07-10

In accordance with the California Health and Safety Code Section 33080.1, the Redevelopment Agency is required to produce and present the following Annual Report, (due six months following the end of the Agency's fiscal year-end date), to the State Controller and its legislative body:

- a. Independent auditor's report on financial statements.
- b. Independent auditor's report on legal compliance.
- c. Annual Report of Financial Transactions of Community Redevelopment Agencies.
- d. Housing activities report.
- e. Blight progress report specifying actions and expenditures made in the previous fiscal year to alleviate blight.
- f. Loan report identifying loans (receivable) which equal or exceed \$50,000 and that were found by the agency during the previous fiscal year to have either defaulted or not complied with the terms of the agreements approved by the agency.
- g. Property report which describes the properties owned by the agency and those acquired in the previous fiscal year.

The Agency prepared the required information for items (a) through (e) above and included them in its annual report submitted to the State Controller's office; however, it did not include items (f) and (g) in that report. Additionally, the Agency did not present items (c) through (g) to its legislative body within six months following the end of the Agency's fiscal year-end, as required by the Code. We recommend that the Agency accomplish procedural steps necessary to comply with this section of the Code.

Status

The City has corrected this finding.

SECTION II - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.